

BILL # SB 1166

TITLE: AHCCCS; Healthcare Group

SPONSOR: Allen

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Timothy Sweeney

FISCAL ANALYSIS

Description

This legislation includes several provisions that would grant the Arizona Health Care Cost Containment System (AHCCCS) more flexibility in administering the Healthcare Group Program and broaden the eligibility definitions for the program. These provisions would assist AHCCCS in its efforts to expand the program's enrollment from its current 11,000 members to approximately 100,000 members. Specifically, this legislation would: 1) allow AHCCCS to contract with a third party for Healthcare Group administrative functions, and to contract directly with health care providers if health plans are not available, 2) establish the non-appropriated Healthcare Group Fund and cap administration at 6% of collected premiums, 3) broaden the definition of "eligible" persons.

Estimated Impact

This legislation is not expected to have a General Fund cost, however, in the long run it could result in General Fund savings. To the extent that this legislation facilitates the expansion of Healthcare Group this legislation could have several impacts. Expanding the membership of Healthcare Group could help eliminate the need for the current \$4 million General Fund subsidy, and could lead to other, less quantifiable secondary effects. If the new Healthcare Group members convert from a private carrier, the expansion could lead to a decline in insurance premium tax revenue. However, if the new members were primarily uninsured it could lead to fewer uncompensated care costs for hospitals.

This bill could also permit a significant increase in the AHCCCS administrative budget, with the increase funded by Healthcare Group member premiums.

Analysis

This legislation would assist AHCCCS in expanding the Healthcare Group program from its current membership of approximately 11,000 up to 100,000 persons. Healthcare Group is a health insurance plan administered by AHCCCS that is only available to employees of small businesses (1-50 employees), self-employed persons, and employees of political subdivisions of the state. Members of Healthcare Group pay monthly premiums that can vary with the member's age and location in Arizona. In FY 2004, AHCCCS estimates that members of Healthcare Group will contribute approximately \$31.1 million in total premiums. In addition to the premiums paid by enrolled members, however, AHCCCS also received a General Fund appropriation of \$4 million in FY 2004 to subsidize the cost of catastrophic claims. In prior years, these reinsurance costs were paid for with Tobacco Tax monies.

To facilitate the expansion of Healthcare Group, this legislation includes provisions broadening the eligibility requirements to be on the program. Currently, small businesses with 5 or fewer employees must have 100% employee participation to join the Healthcare Group program, and employers with between 6 and 50 employees must have 80% participation to join. In calculating these percentages to determine whether an employer may participate in Healthcare Group, this legislation would allow employers to exclude employees with other health insurance providers. Additionally, this legislation would broaden the eligibility definition to include workers displaced due to foreign competition, who are eligible for a federal tax credit for health insurance costs. Lastly, SB 1166 would allow KidsCare Parents members participating in the Employer Sponsored Insurance Program (ESIP) to select Healthcare Group as their insurance provider. The ESIP is a program required by the federal waiver that permits coverage of the KidsCare Parents population. In this program, working members of the KidsCare Parents population receive a subsidy (not to exceed the state share of the member's cost to remain on KidsCare) to join an employer sponsored health insurance program. This program would not exist if the KidsCare Program is eliminated, and this provision would be moot.

To the extent that this legislation assists AHCCCS in expanding the Healthcare Group Program to approximately 100,000 members, there could be several impacts. As the program grows, the risk pool become larger, and the risk associated with catastrophic cases would be spread among a larger population. This expansion could cause premium prices to go down, and would then encourage healthier people to join the program. These occurrences would then help the program to become more self sufficient, and could eliminate the need for the current \$4 million General Fund reinsurance subsidy.

While growth itself may have a cost impact, the current health insurance status of the new enrollees would also have an effect on the potential fiscal impacts. AHCCCS is targeting uninsured persons for this expansion, however, there is no requirement that these new Healthcare Group participants be uninsured prior to joining the program. Therefore, a portion of the new enrollees could possibly be leaving a private insurer to join Healthcare Group. To the extent that this occurs, the state could see a decline in insurance premium tax revenue collections, as Healthcare Group is not currently subject to the 2% premium tax.

If a significant majority of new Healthcare Group members are uninsured prior to enrollment, however, this expansion could have positive effects on the statewide healthcare system as a whole. As more uninsured persons are covered by health insurance, uncompensated care costs to hospitals would decline and total reimbursement would increase.

SB 1166 would further aid AHCCCS in expanding the Healthcare Group program by giving AHCCCS more flexibility in administering the program. Currently, the Legislature appropriates monies (collected from Healthcare Group premiums) to AHCCCS to administer the program. One provision of this bill would allow AHCCCS to spend up to 6% of total Healthcare Group premiums to administer the program from a newly created, non-appropriated fund. This fund would replace the partially appropriated AHCCCS Donations Fund, which currently receives the Healthcare Group Premiums. AHCCCS is able to spend the medical portion of this fund without Legislative appropriation, but AHCCCS receives a yearly appropriation for the administration portion of the fund. In FY 2004, AHCCCS received an appropriation from the AHCCCS Donations Fund of \$1,772,700 to administer the program, which represents approximately 5.7% of the estimated premium collections. Allowing the administrative expenditures from a non-appropriated fund would allow AHCCCS to increase its administrative funding by approximately \$224,800 in FY 2005 above the JLBC Budget. If collected premiums grow at the same rate as the Healthcare Group membership, and enrollment reaches 100,000 members, 6% of total premiums could be as high as \$18 million. This change would also allow AHCCCS to continue to increase administrative funding as the Healthcare Group program grows.

Though this bill makes several changes to the Healthcare Group program, JLBC estimates no cost to the General Fund. Currently, General Fund monies are only appropriated to fund the reinsurance costs of the program, and do not fund either the administration of the program or general medical costs of the program. None of the changes included in this bill are likely to increase the need for the General Fund reinsurance subsidy. Further, the General Fund appropriation is at the discretion of the Legislature, and is not linked to enrollment in the Healthcare Group program.

Local Government Impact

To the extent that increased Healthcare Group enrollment may reduce statewide uncompensated care costs, county-operated hospitals may realize savings. These savings are unable to be determined with current information available.

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